



2014

City of Yakima

# Five-Year Financial Plan

Presented to City Council January 21, 2014





To: The Honorable Mayor and Members of City Council

From: Tony O'Rourke, City Manager  
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**Subject: Five-Year Financial Plan**

We are pleased to provide to the City Council the following Five-Year Financial Plan (FY 2014 - 2018) for its review and consideration. The prior Five-Year Financial Plan (FY 2012-2016) was adopted by the City Council in August of 2012. This new plan updates the revenue and expenditure forecast for the City's General Government (i.e. tax-supported funds, which include General; Streets and Traffic Engineering; and Parks and Recreation) budgets.

The Five-Year Financial Plan is designed to focus on the City's General Government budgets given they represent the core operating services of the City. The balance of the City's other funds will be addressed during the budget process.

Based on an updated forecast, we anticipate modest budget shortfalls ranging from \$200,000 to \$1.1 million between FY 2016 and FY 2018. The updated Five-Year Financial Plan, like the prior Plan, includes proven measures to eliminate these projected shortfalls to ensure annual balanced budgets, while also continuing to respond to the operating and capital needs of the community. A unique opportunity in this Plan are funds to issue \$10 to \$12 million of debt to invest in critical community infrastructure and improvements.

Proposals to eliminate these projected shortfalls include a 2% personnel vacancy rate (historically, the rate has averaged 4%); continued cost reductions in healthcare costs; and other operational efficiency savings, (eg. position attrition, reorganization, managed competition, and service optimization).

This Five-Year Financial Plan allows the City to look into the future to meet our financial challenges by developing long-term solutions rather than short-term fixes.

By providing a forecast of revenues and expenditures over a five-year period (FY 2014-FY 2018), the Five Year Financial Plan will assist the City Council in meeting the following key goals:

- Ensuring a financially sustainable future.
- Preservation of the City's core services.
- Commitment to funding infrastructure; facilities and rolling stock.
- Addressing Strategic Plan priorities.

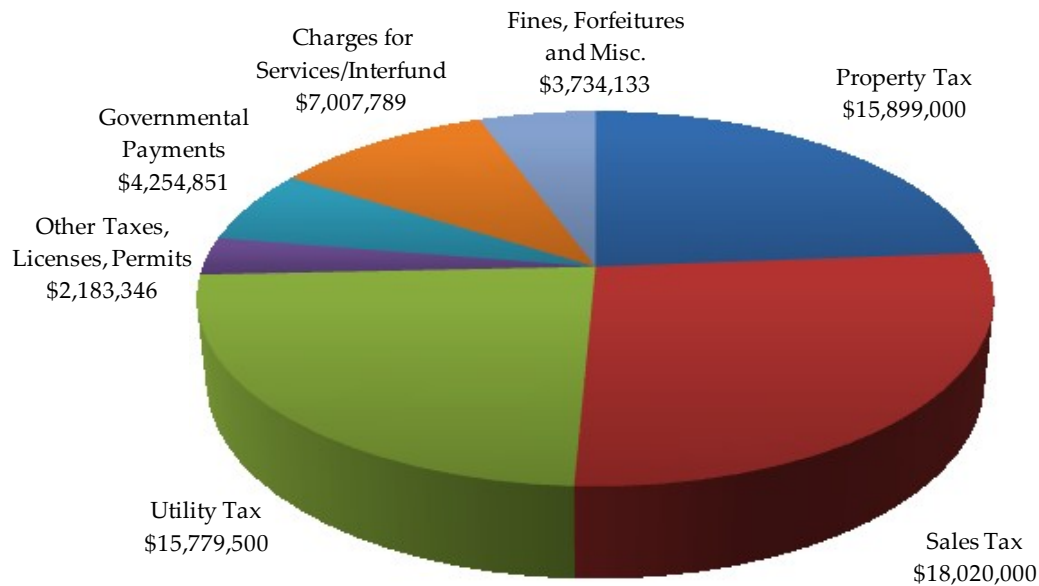
## GENERAL GOVERNMENT REVENUE

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The revenue forecast represents an analysis of the economic factors driving the City's revenue base and specific revenue sources available to the City. The City's core General Government revenues are increasingly affected by the economy. The financial plan revenue projections reflect various assumptions about the future economic environment based on national, state and local economic forecasts. The prior forecast assumed that the City's economy will lag behind the recovery of the State and National economy. However, since mid-2012, Yakima has experienced growth in the revenue base, after 4 years of flat revenues. The revenue assumptions are based on the following:

- The unemployment rate for Yakima County is 8.9% in November, 2013 (the most recent data available). Even though this is high compared to state and federal rates, the nonfarm employment has posted year-over-year increases in 16 of the previous 18 months.
- The Property Tax levy is capped at 1% growth plus new construction which was negatively affected by the prior real estate market decline, but is turning around--so is estimated to grow another 1.5% annually over the next 5 years.
- Total taxable sales have increased by 7.2% in 2012 and 6.7% in 2013. This growth reflects strength in the agricultural sector of our economy improving employment opportunities. In researching the growth rate of this key revenue, it grew at an average annual rate of 4.7% in the 5 years leading up to the 2008 recession. We are projecting it will grow an average of 4.0% as the economy improves over the next 5 years. The county-wide criminal justice sales taxes have grown at a rate about 0.5% greater than the City's sales tax. When this is factored in, the "Sales Tax" category is estimated to grow about 4.1% annually.
- Utilities are sensitive to economic conditions-- demand was reduced and capital programs were delayed through the recession, and hard-line telephone services are being eliminated as consumers convert to cellular only. Both electric and gas utilities announced rate increases going into 2014, and the City's wastewater utility is raising rates to fund needed capital improvements. Even through the recession, the annual average increase (before adding the increased tax rate on city utilities) was 4.4%. This category is estimated to grow at 4%.
- Most other revenues have been historically flat, and are estimated to remain that way throughout the next 5 years. Examples include business licenses, gambling taxes, and fines and forfeitures, all expected to increase at an annual rate between 0.5 and 1.0%.
- The State budget crisis put pressure on local municipalities across the state during the recession. However, we are seeing a rebound in the revenues at the state level that support state shared-revenue. Intergovernmental revenues are projected to grow at a rate between 1.0 and 2.0%, averaging about 1.3% into 2018.

The following chart depicts the 2014 projected revenue budget in generalized categories:



The following projection summarizes the General Governments major revenue source totals and growth for the next five fiscal years. Over the next four years, the average annual increase in General Government revenue is estimated to be 3.1%. This is still conservative, as the total actual growth rate from 2004 through 2012 was 4.1%.

### General Government Revenue Growth Forecast

Revenue Category	2013 Adopted	2014 Budget	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Property Tax	1.8%	1.9%	2.5%	2.5%	2.5%	2.5%
Sales Tax	7.2%	5.1%	4.1%	4.1%	4.1%	4.1%
Utility Tax	1.8%	7.4%	4.0%	4.0%	4.0%	4.0%
Other Taxes, Licenses, Permits	(4.6%)	0.4%	1.0%	1.0%	1.0%	1.0%
Governmental Payments	(3.6%)	4.6%	1.4%	1.3%	1.3%	1.3%
Charges for Services/Interfund	12.6%	9.9%	1.9%	1.9%	1.9%	1.9%
Fines, Forfeitures and Misc.	(1.0%)	3.1%	1.9%	2.1%	2.2%	2.3%
<b>Total</b>	<b>3.4%</b>	<b>5.0%</b>	<b>3.1%</b>	<b>3.1%</b>	<b>3.1%</b>	<b>3.1%</b>

## Property Tax

	2013	2014	2015	2016	2017	2018
	Estimate	Est. Budget	Forecast	Forecast	Forecast	Forecast
Property Tax	\$15,608,000	\$15,899,000	\$16,296,475	\$16,703,887	\$17,121,484	\$17,549,521
Growth Forecast	1.8%	1.9%	2.5%	2.5%	2.5%	2.5%

Property tax represents 24.5% of the General Fund revenue for 2013. The City sets the amount of the levy each year within limits set by state law. The tax is then distributed among the taxpayers by the assessed taxable value of all real property within the City.

### *Projections and Assumptions*

The Property Tax levy is limited to 1% per year increase due to a citizen initiative from several years ago. However, the increase in revenue is generally higher than the 1% because new construction and annexations add to the base. We are not anticipating any annexations in the near future, but new construction is increasing again, and is estimated to add 1.5% annually to the property tax roles.

## Retail Sales and Use Tax

	2013	2014	2015	2016	2017	2018
	Estimate	Est. Budget	Forecast	Forecast	Forecast	Forecast
Sales Tax	\$17,142,000	\$18,020,000	\$18,755,650	\$19,521,394	\$20,318,467	\$21,148,152
Growth Forecast	7.2%	5.1%	4.1%	4.1%	4.1%	4.1%

The City of Yakima receives 0.85% (or about 10.4%) of the 8.2% sales and use tax collected within the city under this revenue source (an additional 0.7% is currently received for restricted purposes – 0.3% for transit, and 0.4% for criminal justice purposes). This tax represents 26.9% of the General Fund revenue for 2013.

The portion of sales and use tax restricted to providing criminal justice related services represents 4.3% of the General Fund revenue. There are two taxes – a 0.3% and a 0.1%. The 0.3% tax on sales was originally passed in November, 2004, and is based on sales inside the County only - the proceeds are divided between the County and Cities on a predefined formula under which the County receives 60% and all cities within the County share the remaining 40%. The 0.1% tax was originally approved by voters in 1992 - proceeds are allocated by the state between the County and Cities based on a predefined formula.

### *Projections and Assumptions*

Sales tax history shows a large drop in 2009 after a decade of healthy growth. It has been pretty flat in 2010 and 2011, but started trending up in 2012. 2012 ended the year 7.2% ahead of 2011, and 2013 continued the trend, ending 6.7% ahead of 2012. With the moving of a major retailer into the city limits, the 2014 projection is 4.6% growth (3% overall plus a factor for the new retail). The criminal justice sales taxes have historically grown at higher rates, so they are estimated to increase by 4.5%. In reviewing general sales tax trends pre-recession, growth in this category is expected to increase by

about 4% annually over the next several years, in anticipation of a recovering economy. These two assumptions average 4.1% for total sales tax growth into 2018.

### Utility Tax

	2013 Estimate	2014 Est. Budget	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Utility Tax	\$14,686,000	\$15,779,500	\$16,410,680	\$17,067,107	\$17,749,791	\$18,459,783
Growth Forecast	1.8%	7.4%	4.0%	4.0%	4.0%	4.0%

Utility tax represents approximately 23.6% of the General Fund revenue. It comes from taxes on utilities, both City-operated and outside utilities. This revenue varies according to weather conditions, consumer conservation efforts and utility rates.

#### *Projections and Assumptions*

Utility tax rates were increased 6% by the Council effective in February 2012 to increase Public Safety funding. Certain rates were also increased which will of course increase the tax revenue. The City's bond covenants require that the water, wastewater and irrigation systems be maintained adequately to serve our citizens throughout the life of the bonds. Rate studies are done every 3 to 5 years to help us determine that we have adequate financial resources to maintain the system. These rates will anticipate necessary capital replacement, improvements or potential mandated upgrades by regulatory agencies. The 2014 budget includes a 5% cable television tax that was originally levied to fund debt service on the law and justice center. As that debt is totally paid in 2013, this revenue source (approximately \$500,000) is being transferred to General Fund, which explains the increase in 2014. Outside utilities have announced rate increases effective in 2014, so in reviewing historical increases and known rate adjustments, this revenue source is estimated to grow at an annual average of 4%.

### Other Taxes, Licenses, and Permits

	2013 Estimate	2014 Est. Budget	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Other Taxes, Licenses, Permits	\$2,173,800	\$2,183,346	\$2,204,744	\$2,226,393	\$2,248,297	\$2,270,459
Growth Forecast	-4.6%	0.4%	1.0%	1.0%	1.0%	1.0%

This category includes business licenses, gambling taxes and building licenses and permits, representing only about 3.4% of total revenue.

#### *Projections and Assumptions*

The business license fee has been unchanged since the late 1980s, when these fees were increased so that the City could participate in building the SunDome. Any change would just be the number of businesses and/or employees operating within the City limits. Gambling tax has been rather steady over the past several years, although Council changed the ordinance in 2013 to exempt certain non-profit organizations, so the base is reduced in 2013. Building permits dropped during the recent recession, but the major school rebuilding projects shored up this revenue in 2011 and 2012. Going forward, YVCC has an expansion planned, and economic climate is good for building projects since

interest rates are at historic lows. Future revenues in these categories are conservatively projected to grow about 1% over the next 5 years.

### Governmental Payments

	2013 Estimate	2014 Est. Budget	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Governmental Payments	\$4,068,785	\$4,254,851	\$4,313,025	\$4,370,714	\$4,429,297	\$4,488,791
Growth Forecast	-3.6%	4.6%	1.4%	1.3%	1.3%	1.3%

Intergovernmental revenue makes up about 6.4% of the total pie. The major component of this category is state-shared revenue, including the liquor taxes and profits; gas tax; and criminal justice distributions. Also included is the contract with Yakima School District for school resource officers, and Yakima County for the joint purchasing agreement, among other grants/agreements.

#### *Projections and Assumptions*

Although the anticipation going into 2012 was that the State would cut much of this revenue to balance its budget, it did not come to pass. Instead, a voter initiative to privatize state liquor sales actually increased the amount to be distributed to local governments to maintain local criminal justice systems. Part of the increase in 2014 is tied to the School District's commitment to fund a Sergeant to supervise the school resource officers. Also in 2014 is the move of electronics technicians from the Public Safety Communications Fund into General Fund, along with the related revenue for these services to neighboring agencies. Because of potential long-term issues for the State's budget, this revenue is projected to grow at a rate of about 1.3% through the next several years.

### Charges for Services/Interfund

	2013 Estimate	2014 Est. Budget	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Charges for Services/Interfund	\$6,379,205	\$7,007,789	\$7,143,515	\$7,281,890	\$7,422,965	\$7,566,792
Growth Forecast	12.6%	9.9%	1.9%	1.9%	1.9%	1.9%

Charges for Services represent 10.0% of the 2013 General Government revenue. The majority of this revenue comes from fees paid by other City funds in order to allocate the costs of general fund support services (legal, administration, purchasing, accounting, payroll, etc.) These services are billed to each department based on a percentage of the total amount of costs required to be recovered from other funds. Also included are certain charges for services to the public such as Parks program fees and the utilities reimbursing General Fund for customer service/billing activities.

#### *Projections and Assumptions*

As the administrative City divisions consist primarily of staff-related costs, the payroll growth assumptions of 2 to 2.5%, the related charges for service are estimated to increase about 2%.



## Fines, Forfeitures and Miscellaneous

	2013	2014	2015	2016	2017	2018
	Estimate	Est. Budget	Forecast	Forecast	Forecast	Forecast
Fines, Forfeitures and Misc.	\$3,621,959	\$3,734,133	\$3,805,544	\$3,885,022	\$3,970,017	\$4,060,789
Growth Forecast	-1.0%	3.1%	1.9%	2.1%	2.2%	2.3%

Fine and Forfeiture revenue is derived primarily from criminal fines, noncriminal penalties, and parking violations. This category also includes the transfer of 3.5% of water, wastewater and refuse utility tax designated for Parks and Recreation programs from General Fund. Other miscellaneous revenue consists primarily of interest income from investing available cash balances. These 3 categories together represent about 5.7% of total General Government revenues in 2013.

### *Projections and Assumptions*

Prior to the recession, interest income was 3 times more than it is today. Interest is anticipated to grow slightly for the next 5 years. The transfer to the Parks and Recreation Fund is expected to grow at the same rate as related utility taxes—4%. Fines and Forfeitures are estimated to stay relatively flat. These projections average about 2% going forward.

## GENERAL GOVERNMENT EXPENDITURES

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In both 2013 and 2014, several strategic initiatives have been approved and included in the base 2014 budget. The most significant initiatives included in the 2014 budget are:

- \$2 million annually for Street repair and maintenance, as approved by the citizens in a 2013 vote to amend the City Charter. (The Cable Television utility tax previously used for Law and Justice Center debt service is being redirected to General Fund for this purpose). This is budgeted in 2014 as debt service on approximately \$16.5 million of road improvements.
- \$347,000 annually for the \$5 million Street improvement bond debt service funded in 2013 by the City prior to the Charter vote.
- \$500,000 in 2014 and 2015, growing to \$1million in 2016 which is the local match for the Cascade Mill Site redevelopment area. Washington State has committed up to \$1 million per year for project costs or debt service, which we need to match dollar for dollar. Note: Some of the match in 2015 and 2016 is coming from Yakima County preliminary design for the East-West corridor.
- Several positions were added both in 2013 and 2014 to restore service cut during the recession or to enhance services as identified in response to the Citizen Survey, including:
  - Enhanced Policing programs, i.e. Gang Unit, Bicycle Patrol, Violent Crime Task Force
  - Animal Control
  - Fire Inspections
  - Code Enforcement
  - Restore Fire Service
  - Gang Free Initiative (GFI) Manager
  - Police succession planning
  - Separating jobs that were combined--Information Technology/Public Safety Communications manager and Planner/Parks Administrative support.
- \$400,000 has been added to meet the Indigent Defense minimum case rules that will be effective the beginning of 2015
- \$350,000 was added in 2015 to pay for the City's allocation of the Public Safety Communication's move to a new facility, including debt service and ongoing operating costs.

### Debt Service

#### *Debt Capacity*

As the economy started to grow in 2012, the City addressed capital deficiencies, especially in its Streets infrastructure, and invested in other strategic priorities, such as public safety (i.e. the Police vehicle take-home program and Fire equipment replacement), and economic development through our match for the Cascade Mill Site project. In instances where improvements are high dollar value and have an extended service life, it is appropriate to borrow and repay the debt over the useful life of the asset acquired.

Washington State limits the amount of General Obligation debt that a City can have outstanding to a percentage of the taxable assessed valuation of property in its jurisdiction. The most restricted category is General Obligation (GO) debt authorized by City Council, which can't exceed 1.5% of assessed value, net of assets that are available to repay the debt. In 2013, the 1.5% limit is approximately \$82.6 million, and net outstanding debt was \$31.0 million, leaving remaining capacity of \$51.6 million. Accordingly, we have used 37.5% of our GO debt capacity. The City's current Financial Management Policy restricts

using no more than 70% of the capacity, in order to reserve 30% for emergencies. This means the City has at least \$26.8 of its general obligation debt capacity available at the end of 2013.

Moody's Investors Service publishes an annual report on US Local Government Medians. For 2012, Yakima's "Direct Net Debt as % of Full Value" is 0.6% (\$31.0 million of Direct Net Debt divided by the total Assessed Valuation of \$5.5 billion). Other US Cities with a population between 50,000 and 100,000 that have a similar underlying bond rating had a ratio of 1.6%. If we add \$16.5 million for additional street improvements in 2014, this critical ratio would be 0.9%, which is 56% less outstanding general obligation debt per assessed property value compared to similarly-situated cities in America.

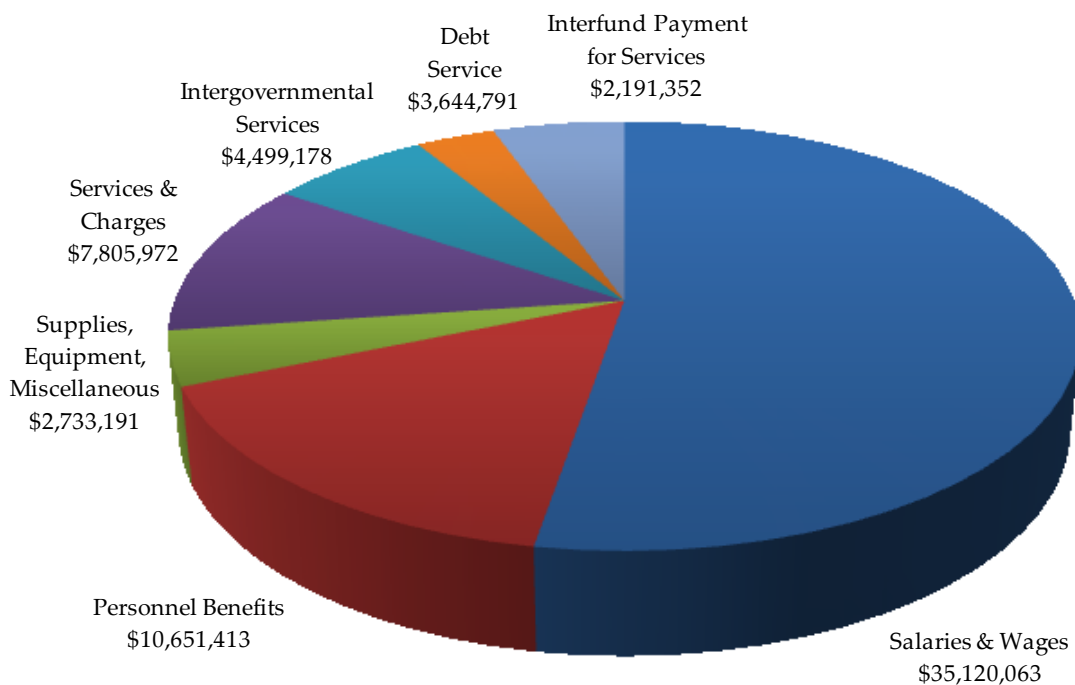
We also surveyed the cities that we have used to do the comparable analyses in the 2014 Preliminary Budget. Four cities responded, and they all make debt service payments out of General Fund and have outstanding Councilmanic debt ranging from \$38 million to \$221 million and 17.7% of capacity to 45.7% of capacity; compared to Yakima's \$31.0 million which is 37.5% of our debt capacity in 2013.

#### *Projections and Assumptions*

The 2014 budget includes the full year of debt service of \$876,000 for the Police and Fire equipment, and \$350,000 for the \$5 million street improvement project borrowed in 2013. It also includes \$2 million of debt service (in accordance with the City Charter amendment change) which is estimated to support about \$16.5 million of street projects. Although, the Cascade Mill Site match of the State's Local Infrastructure Financing Tool (LIFT) is not yet debt service, it is included in this category at \$500,000 through 2015, growing to \$1 million in 2016 going forward, as we anticipate bonding for this project when the planning is complete.

Also included for future capital expenditures are funds for new projects of \$200,000 in 2015, growing to \$1,000,000 in 2016 going forward. This \$1 million could be used to support debt service payments on \$10 to 12 million in capital improvements, such as a new aquatic complex; North 1<sup>st</sup> Street enhancements; or Downtown improvements.

The following chart depicts 2014 projected expenditure budget in generalized categories:



The primary costs of the General Government expenditures are for salaries and wages, and personnel benefits, which combined comprise 68.7% of the General Government expenditure budget.

The following chart shows projected General Government expenditures for the next five fiscal years by major category. Over the next four years, the average annual increase in General Government expenditure is projected to be 3.3%.

### General Government Expenditure Growth Forecast

Expenditure Category	2014 Budget	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Salaries & Wages	5.5%	2.5%	2.5%	2.5%	2.0%
Personnel Benefits	(1.8%)	4.5%	4.5%	4.5%	4.5%
Supplies, Equipment, Misc.	1.4%	2.0%	2.0%	2.0%	2.0%
Services & Charges	10.7%	7.0%	2.0%	2.0%	2.0%
Intergovernmental Services	(10.0%)	8.1%	3.0%	2.0%	2.0%
Debt Service	191.0%	5.2%	33.9%	(0.7%)	0.0%
Interfund Payment for Services	(2.8%)	5.0%	5.0%	5.0%	5.0%
<b>Total</b>	<b>6.8%</b>	<b>3.4%</b>	<b>4.6%</b>	<b>2.6%</b>	<b>2.4%</b>

## **Salaries & Wages**

The primary costs of the General Government expenditures are for salaries and wages, which reflect the service nature of local government. Salary costs account for 52.7% of general government expenditures.

### *Projections and Assumptions*

All of the bargaining unit contracts are either settled, or in the final stages. The major units (i.e. AFSCME, YPPA, and IAFF) are settled through 2017, giving some certainty to these future calculations. The 2014 budget includes the additional staffing to meet Council's strategic priorities in the base. Future salaries and wages have been calculated to reflect estimates for recently negotiated increases, along with an estimate for 2018. No new positions are included in this forecast. It should be noted that the 2% vacancy rate offset identified as a balancing strategy in the 2012 Plan is incorporated in these totals. Salaries and Wages are projected to increase an average of 2.5% through 2017, and 2.0% in 2018.

## **Personnel Benefits**

The second largest City expense is the cost of personnel benefits. These benefits include Social Security, pension costs, and medical, dental, vision and life insurance. Personnel Benefit costs represent approximately 16.0% of the General Government expense. The City is self insured for its medical, dental and vision; unemployment; and workers' compensation programs for all eligible employees, which is the least expensive way to provide these benefits.

### *Projections and Assumptions*

Benefit costs are anticipated to rise at a rate higher than the CPI. Although certain benefit costs such as Social Security increase at the same rate as the related salaries, health care costs could potentially increase at a rate of 6.5% to 10%. Co-pays and incentives were designed into the plan in 2012, and a medical clinic was opened in 2013 to help mitigate the cost increases. These changes have helped to contain health plan costs, and we are adding approximately \$750,000 to our health plan reserves in 2013, bringing the total health plan reserves to \$3.2 million. Based on a rolling 18 month average of claims at the end of June, 2013, the medical rates were reduced significantly in 2014—and are then estimated to increase about 6% annually, as we continue to focus on wellness incentives and clinic use.

State pension contribution rates were also increased in 2014, but are expected to flatten so that the expenditure growth is only in relationship to base salaries. Worker's compensation and unemployment are expected to remain relatively flat. When all of these components are considered together, this total category is projected to grow at an average annual rate of 4.5%.

The prior Plan in 2012 included a balancing component to reduce health care costs by \$1 million by 2016. This target is met in this projection. Since the health plan fund current \$3.2 million reserves exceed the minimum required by the State Office of Risk Management, rate adjustments can be "smoothed" in the near future.

	2013 Adopted	2014 Budget	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Medical	\$5,307,089	\$4,656,448	\$4,935,834	\$5,231,984	\$5,545,904	\$5,878,658
Dental	\$492,029	\$539,583	\$571,958	\$606,275	\$642,652	\$681,211
Total	\$5,799,117	\$5,196,030	\$5,507,792	\$5,838,260	\$6,188,555	\$6,559,869

### **Supplies, Equipment and Miscellaneous**

This represents the tangible goods purchased by the City. Examples include office supplies; fuel; gravel, tar and deicer for street programs; items sold at the concession stands for parks programs; ammunition for the police department; and hoses for the fire department. The equipment budget has been greatly reduced through these last recessionary years. Although the City cannot continue to offer services without investment in facilities and equipment, minimal capital expenditures are included in this projection.

#### *Projections and Assumptions*

Supply and equipment costs are expected to increase at a modest 2% rate as the economy moves slowly forward.

### **Services and Charges**

The majority of these expenditures are for professional services needed that are from outside sources. Items include communications (telephone, postage); utilities; training; and repairs & maintenance.

#### *Projections and Assumptions*

Service costs are expected to increase at a modest 2% rate as the economy moves slowly forward.

### **Intergovernmental Services and Interfund Transfers**

Jail costs provided by other governments make up about half of this category, while the other half consists of interfund transfers. The largest transfer is from General Fund to the Parks and Recreation Fund for the 3.5% of utility taxes that are designated for that purpose. Also included in this category is the General Fund support for Fire and Police dispatching.

#### *Projections and Assumptions*

The City has negotiated a jail contract with Yakima County which reduced this expense category in 2014 and has brought some stability to this expenditure. Internal utility taxes are projected to increase, so that the transfer to Parks and Recreation is matched to that revenue source. Dispatch personnel received a negotiated labor settlement similar to Fire personnel, so that transfer is expected to increase, as well.

## **Interfund Payments for Services**

These payments are made between funds for services offered by other areas of the City. The largest of these interfund payments are for equipment rental by various areas of the City, along with Public Works Administration charges for streets and parks and contributions to the Risk Management Fund.

### *Projections and Assumptions*

Because of the challenges facing the Risk Management fund, this category is expected to increase at an average annual rate of 5%.

## **Deferred Maintenance and Capital Improvements**

Over the years, the City has failed to keep pace with needed capital investment and deferred maintenance of its capital assets. In the most recent Strategic Plan, Council is addressing the Street maintenance deficiency. However, other areas of need exist. Currently, approximately 50% of the Equipment Rental Fleet (which excludes Police, Fire, and Transit rolling stock) is beyond its calculated replacement age. Parks capital funding is completely depleted — there is not enough in the Parks Capital fund to respond to any major maintenance emergency. Although this forecast addresses the critical issue of street maintenance, and economic development, it is extending the deferred maintenance in other areas, so that current equipment and facilities will continue to deteriorate, until a long-term solution can be determined.

## SUMMARY

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Since the 2012 forecast was issued, the economy has improved and the City took steps to reduce expenditures. This Five-Year Financial Forecast predicts that the fund balance is expected to remain above the targeted minimums through 2015. Based on projected revenue and expenses the Preliminary Five-Year Financial Forecast reflects projected budget shortfalls between \$1.1 million annually in 2016 dropping to \$200,000 in 2018, as revenue is estimated to continue to grow, and debt service remains flat after it is initially added. As we go forward through 2014 and 2015 management will continue to look for operational efficiencies, such as position attrition, reorganization, managed competition, and service optimization.

The following chart summarizes the budget shortfalls identified in the 5-year Financial Forecast, and our proposal to bring future budgets into balance.

General Fund (Millions)	2013 Adopted	2014 Budget	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Revenues	\$63.7	\$66.9	\$68.9	\$71.1	\$73.3	\$75.5
Expenditures	\$62.4	\$66.6	\$68.9	\$72.1	\$74.0	\$75.7
Budget Gap	\$1.3	\$0.2	\$0.0	(\$1.1)	(\$0.7)	(\$0.2)
Cost Reduction Element						
Operational Efficiencies				\$1.1	\$0.7	\$0.2
Net		\$0.2	\$0.0	\$0.0	\$0.0	\$0.0

### Projected General Government Reserves

The City has a policy to maintain 16.7% unassigned operating reserve in the combined General Government funds to address unforeseen expenditures of an emergency nature. The following table depicts the ending reserve balance based on the summary forecast presented above, and the calculated percentage of operating expenses.

	2013 Adopted	2014 Budget	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Operating Reserve % of GF	19.5%	18.6%	18.3%	17.8%	17.3%	16.8%
Total Reserve	\$12.2	\$12.4	\$12.6	\$12.6	\$12.6	\$12.7

The City of Yakima is coming out of the worst economic recession in recent history, and the Five Year Financial Plan represents a prudent and balanced strategy for meeting its fiscal challenges. The strategy reflected in the Five Year Financial Plan allows the City to eliminate projected budget gaps, and make critical investments in its street infrastructure and other needed capital improvements. Moreover, the strategy will allow the City to continue to provide essential, outstanding cost effective service and capital improvements to our residents and businesses.